Watson & Associates ECONOMISTS LTD.

Barrie

City of Barrie
Long Range Financial Plan

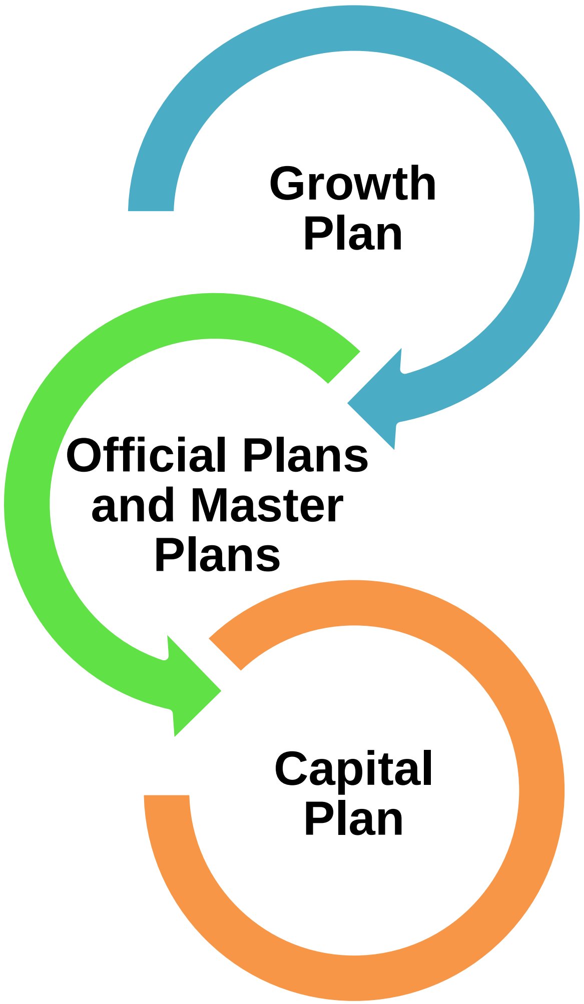
City Council

October 4, 2021

Study Purpose

- Assess City’s current financial position
- Assess pressures facing the City
- Identify challenges to achieving financial sustainability
- Present recommendations to address the challenges

Financial Sustainability: Municipal Infrastructure



Mandates growth targets

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Official Plans must conform to the Growth Plan

Infrastructure master plans fall in line

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Implements the Master Plans

Risks for Council to Consider

- Growth
  - Prebuilding of growth-related infrastructure will become a financial burden on the City to cash flow debt payments as growth has not occurred in line with forecasts.
  - Landowners are phasing developments in smaller subdivisions than originally anticipated.
  - The City has prebuilt infrastructure and invested for Phase 1 development; however, Phase 2 and 3 landowners are seeking to develop in advance of Phase 1.
- Replacement
  - Existing asset replacement needs are not currently being met in the first ten years of the forecast for tax-supported services. This may increase risk to the City and/or result in additional pressure on the tax levy increases to undertake the additional capital works.
- Debt/Reserves
  - Significant forecasted debt financing may affect the City's credit rating, and as a result, financing rates would increase. Alternatively, increased reserve transfers will reduce the debt capacity impacts.
  - Infrastructure gap will widen if DIRF contribution not maintained (at 1%).

Capital Forecast & Financing (2021-2041)

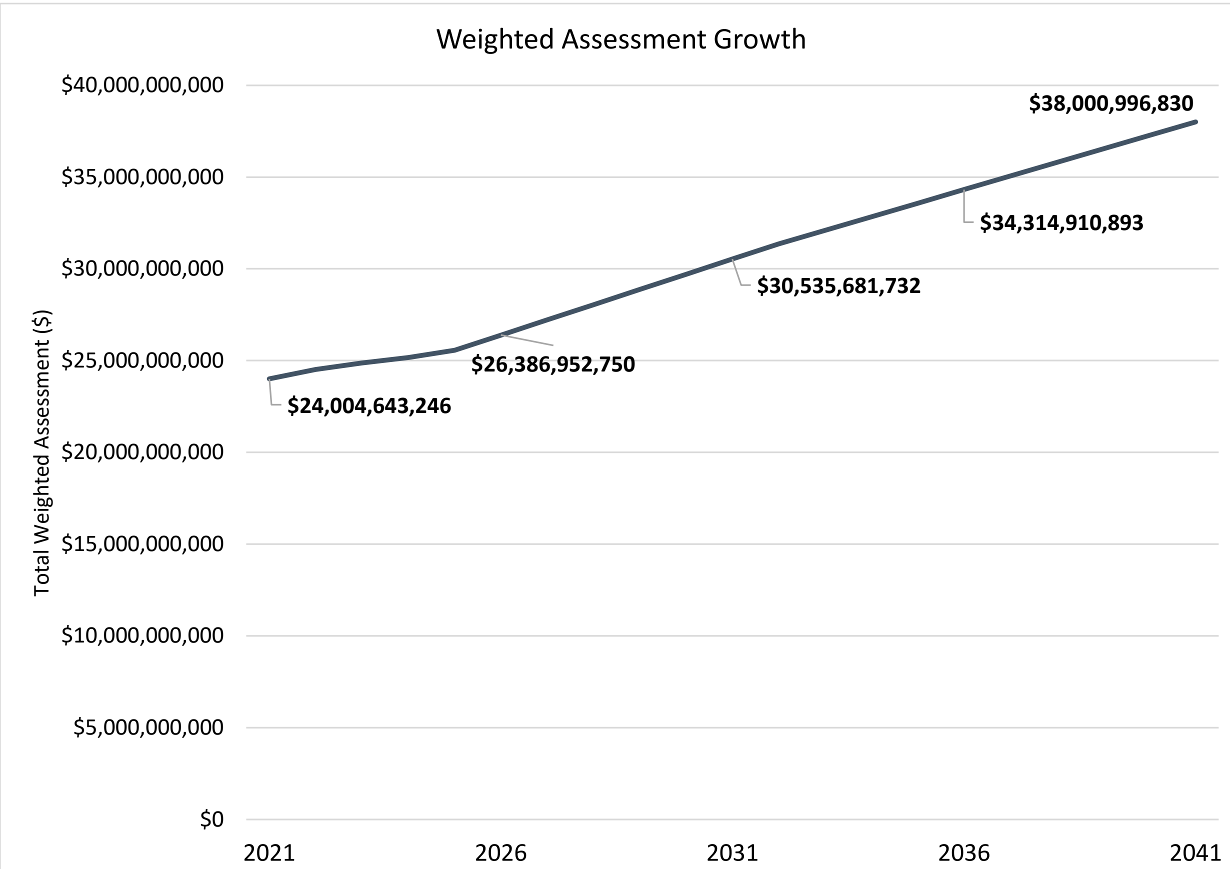
Capital Forecast (Millions)	2021-2041 (Inflated $) Water & Wastewater Services	Tax-Supported Services	Total
Growth Related	$834	$3,401	$4,235
Non-Growth Related	$1,055	$3,108	$4,162
Total	**$1,889**	**$6,509**	**$8,398**

Capital Financing (Millions)	2021-2041 (Inflated $) Water & Wastewater Services	Tax-Supported Services	Total
D.C. Reserve Funds	$709	$3,013	$3,722
Growth-Related Debentures	$126	$388	$514
Capital Reserve Funds	$974	$1,966	$2,940
Non-Growth Related Debentures	$80	$1,142	$1,222
Total	**$1,889**	**$6,509**	**$8,398**

Note: small portion of funding from capital reserves related to grants and other contributions

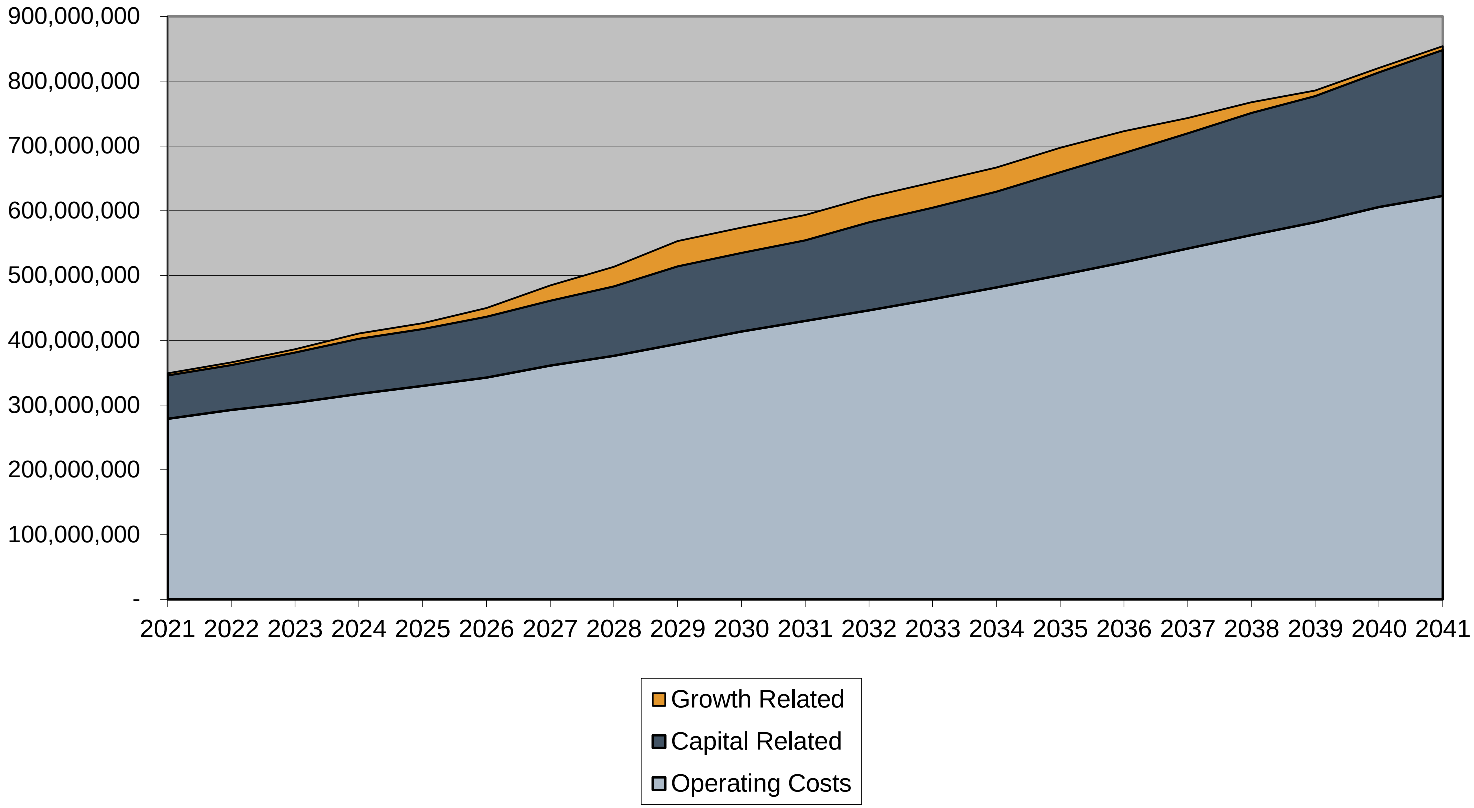
- Significant non-growth-related expenditures related to replacement of aging infrastructure.
- Capital reserves are not sufficient to cover expenditures therefore debt is required. Alternatively, transfers to capital reserves should be increased (however, this would increase tax rates).
- Based on the current levels of forecasted debt (approximately $1.7 billion), there will be issues with debt capacity midway through the forecast period (discussed later in this presentation).

Assessment Growth – 2021-2041



- New development will provide additional assessment growth.
- Weighted assessment is anticipated to increase by an annual average of 2.3%.
- By 2041, the weighted assessment is forecasted to increase by 58% relative to 2021.
- Growth in assessment is small relative to the forecasted expenditure increases. As a result, tax rates will increase.

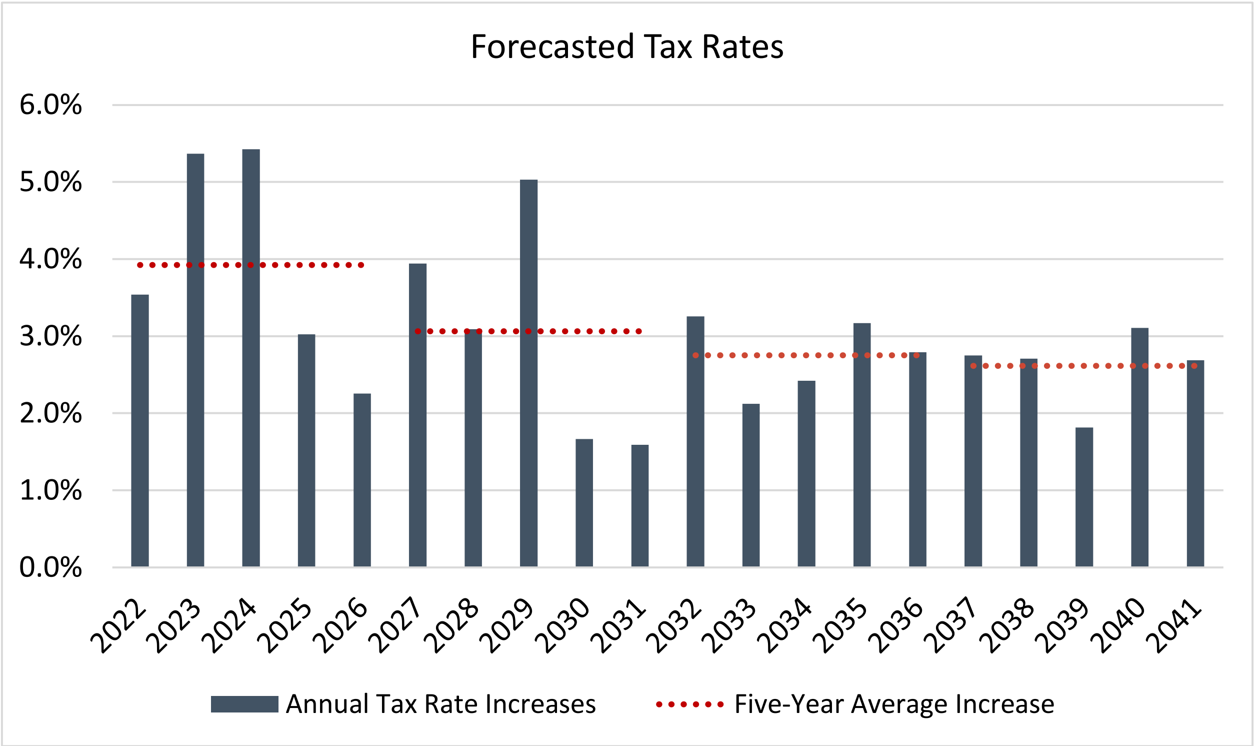
Forecasted Tax-Supported Budget



Note: Growth related debt is funded through D.C.s

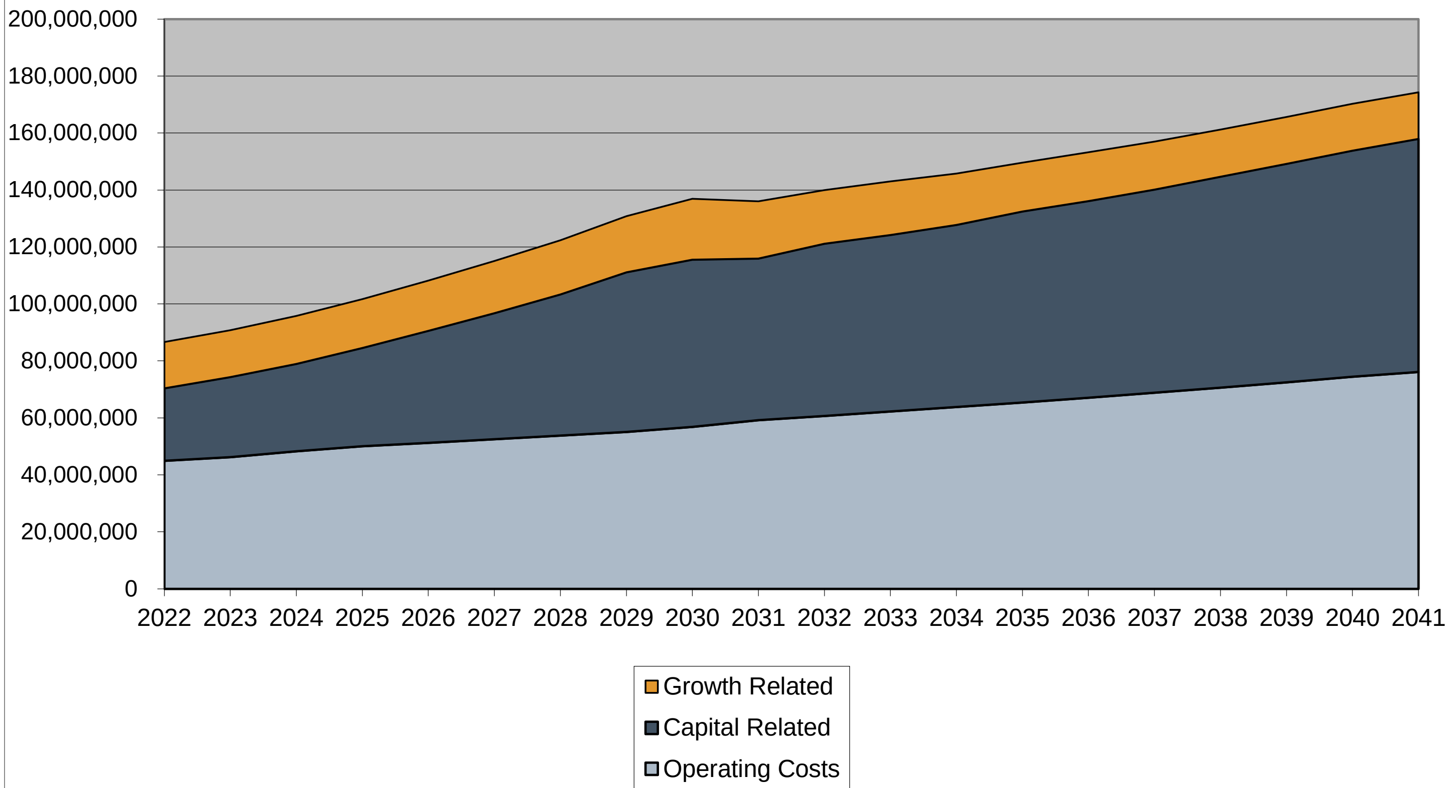
- Operating costs reflect day-to-day programming costs and will increase as a function of inflation and growth.
- The growth/capital related is predominantly debt and reserve fund transfers and will rise faster than operating costs.

Forecasted Tax Rate Increases (2021-2041)



- Tax Rate Increases driven by:
  - Extensive capital program in the first ten years with minimal existing reserve balances to fund required expenditures.
  - Growth in population and employment providing an increased pressure on providing services.
- Note: tax rate increases assume growth will occur in line with forecasts. If growth does not meet targets, higher tax rate increases would likely be required.

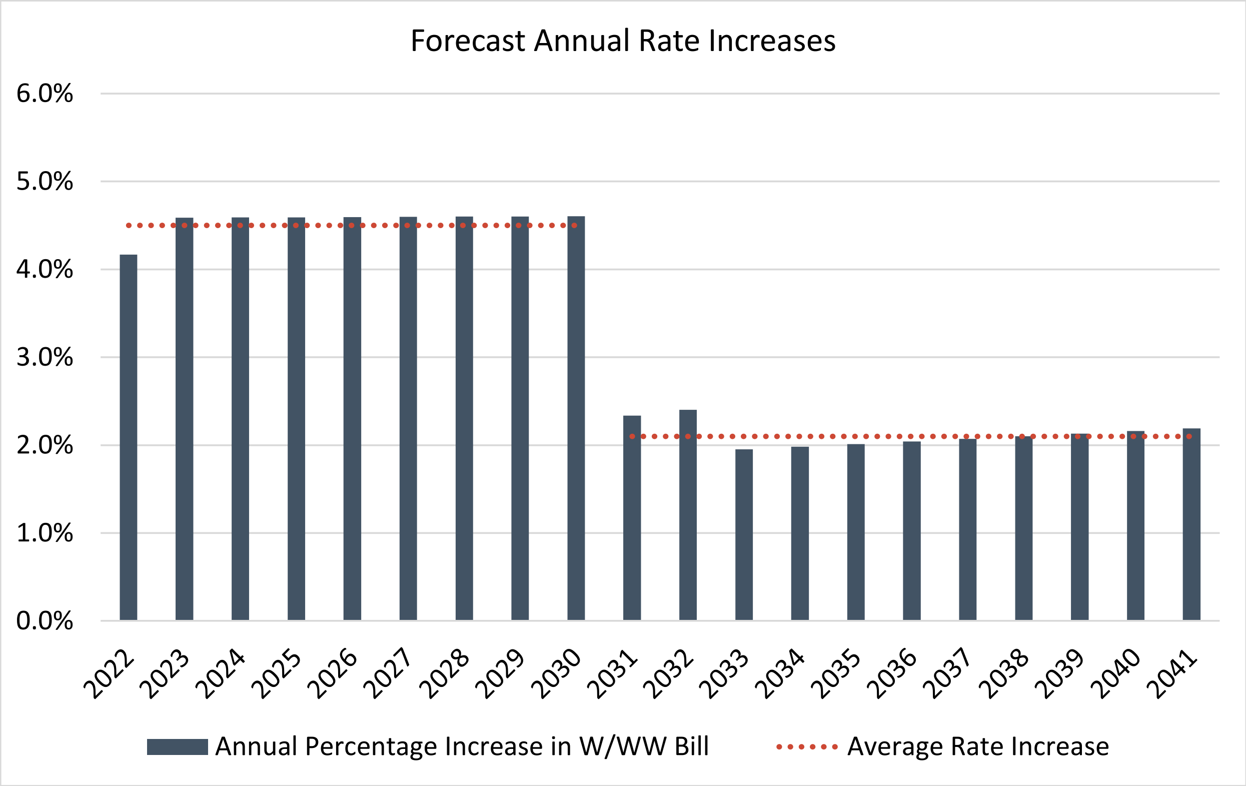
Forecasted Rate Supported Budget



Note: D.C. reserves are insufficient to fund growth-related debt charges throughout the early years of the forecast period

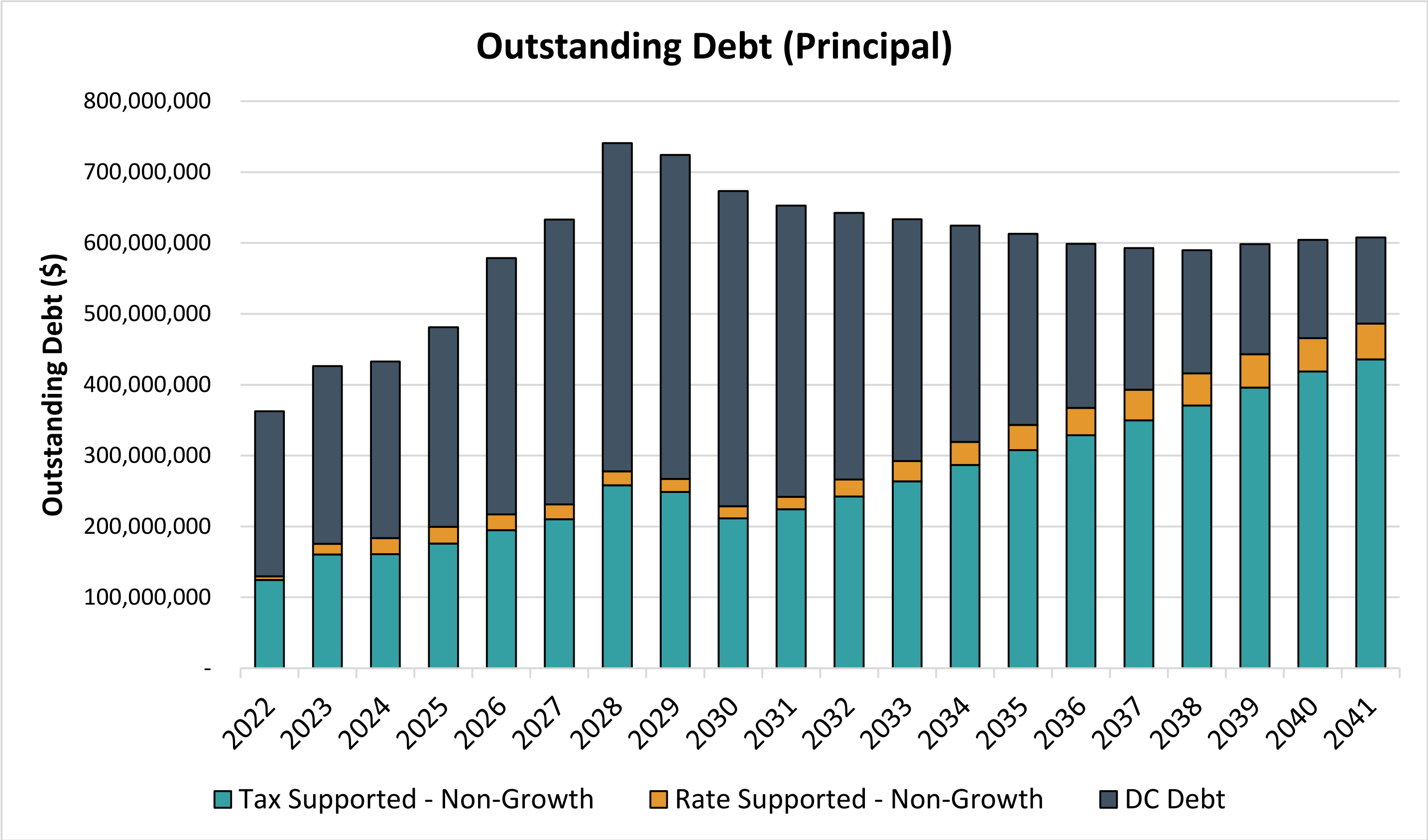
- Significant asset replacement expenditures are required throughout and beyond the forecast period. Similarly, growth-related costs will place a financial burden on the operating budget.
- Capital related is predominantly reserve fund transfers. In the first third of the forecast, these reserves are funding negative balances in the D.C. reserve funds.

Water/Wastewater Rate Forecast (2021-2041)



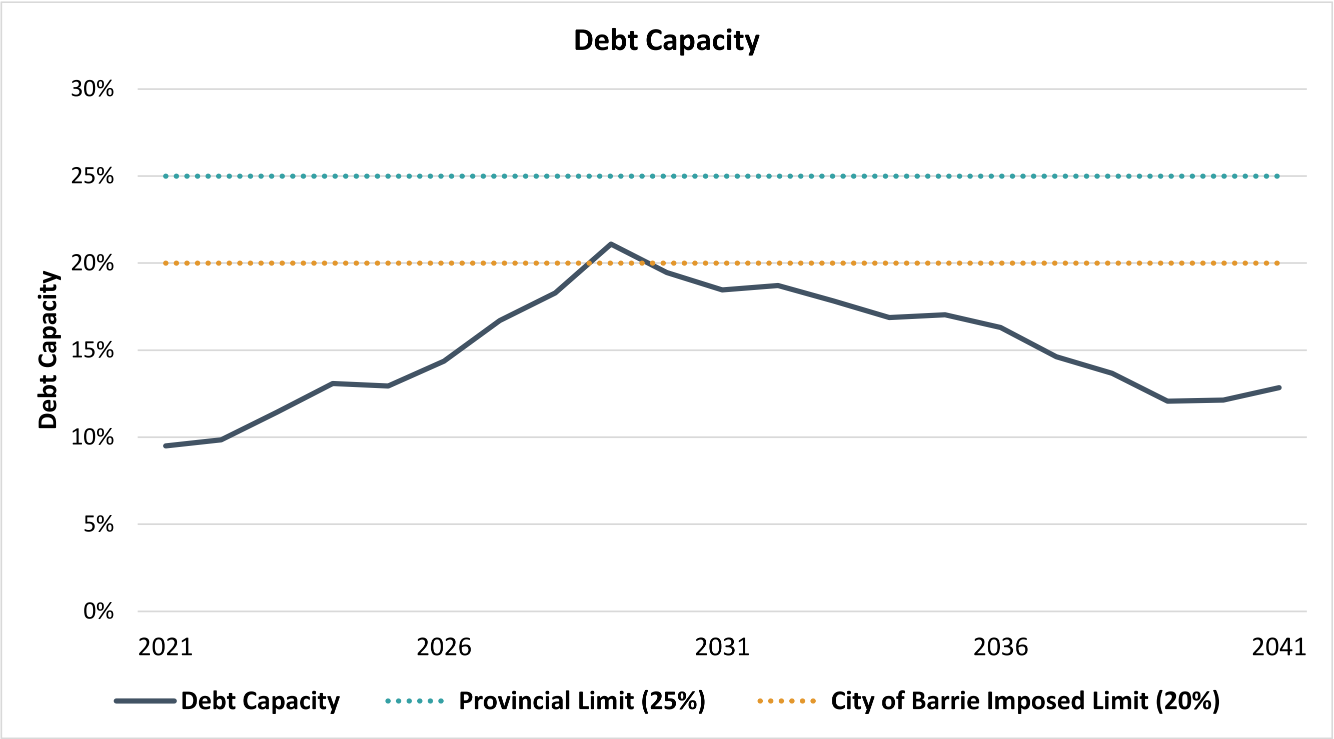
- Higher rate increases in first half of forecast required to fund significant capital expenditures (this was reflected in the Water & Wastewater Financial Plan).
- Lower rate increases in the latter half of the forecast period attributable to:
  - Reserve fund levels are reaching sustainability.
  - Growth generating additional rate revenues.

Outstanding Debt



- In the first half of the forecast, significant debt is required to fund growth-related expenditures.
- In the latter half of the forecast, debt is addressing asset management needs.

Debt Capacity Analysis



- Municipalities are limited in the amount of debt that can be issued. Debt charges cannot exceed 25% of total net revenues.
- The City's Financial Framework sets an upper limit on debt charges to not exceed 20% of total net revenues. By 2029, the City's policy limit is exceeded.
- Higher debt burdens may lead to pressure on the City's current credit rating.

Key Takeaways

- Capital reserves are not sufficient to cover expenditures for aging infrastructure and non-growth expenditures. As a result, the City will likely face a debt capacity issue by 2029.
- To improve on financial sustainability the following should be considered:
  - Forecasted tax and user rate increases are higher than recent increases, however the recommended increases are lower than what the previous financial plan identified and is within the policy threshold of affordability.
  - D.C.s need to be updated to include all growth-related capital.
  - The burden on the City to cash flow growth related infrastructure must be reduced.
  - Infrastructure renewal gap needs to be reduced.
  - Reserves need to meet Financial Policy Framework targets.

Key Takeaways

- A potential action plan is required to improve financial sustainability – needs to be undertaken in conjunction with planning/engineering/ growth management policies.
  - Planning/growth management policies must ensure infrastructure is not prebuilt too far in advance of actual construction (phasing)
  - Growth management funding must minimize City debenture requirements (front-ending, credit agreements)
  - DIRF funding needs to be increased
  - D.C. background study needs to be updated
  - Increased service level expectations and special projects which draw on reserves need to be constantly re-assessed against financial sustainability goals

Financial Policy Recommendations

- Reduce Reliance on Debt:
  - Increase Contributions to Capital Reserves (i.e. short term: Dedicated Infrastructure Renewal fund to 1%, longer term to be considered)
- Phase Development or pursue front-ending with developers for growth-related works
- Full update of Development Charge By-law to embrace additional capital needs and related financing costs
- Memorandum of Understanding (MOU) was negotiated for Phase 1 development to provide for Capital contributions, Timing of Capital Works, Developer Led Projects etc. – not all aspects were carried out however cash flow requirements should be implemented. Similar cashflow requirements should be considered for additional phases of development.

Next Steps

- Input from Council and public to be considered
- Finalize LRFP report
- Council approval of LRFP report and recommendations

Questions?